



*International Journal of Humanities & Social Science Studies (IJHSSS)*  
*A Peer-Reviewed Bi-monthly Bi-lingual Research Journal*  
ISSN: 2349-6959 (Online), ISSN: 2349-6711 (Print)  
Volume-III, Issue-IV, January 2017, Page No. 82-90  
Published by Scholar Publications, Karimganj, Assam, India, 788711  
Website: <http://www.ijhsss.com>

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## **A Study on Institutional Credit to Agriculture Sector in India**

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### **Abstract**

*The institutional credit has been conceived to play an important role in the agricultural development of India. A large number of institutional agencies are involved in the disbursement of credit to agriculture. However, the persistence of money lenders in the rural credit market is still a major concern. In this backdrop, the present study has assess the quantum of loans issued and outstanding by institutional agencies and to examine the progress of Scheduled Commercial Banks in supplying agricultural credit in India. The relevant information was gathered through secondary data and compound growth rate were used for the analysis of data. The study reveals that the highest increase in loans issued was in the case of Scheduled Commercial Banks while the lowest was in the case of Co-operatives on the other hand the total number of account holders in scheduled commercial banks has increased from 5,841 to 30,538, whereas the amount of finance increased from 14,516 to 2,71,670 in the referred period. The total direct and indirect advances to agriculture outstanding by scheduled commercial banks shown gradual increase from 59310 crore to 583343 crores during the reference period.*

**Keywords:** *Institutional agencies; Scheduled Commercial Banks; Co-operatives; Agriculture.*

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**1. Introduction:** Agriculture is the backbone of Indian economy. The prosperity of the country depends up on the agriculture sector. It plays a strategic role in the economic life of the Indian society. In the Indian economy agriculture contributes one-third of the national income. Sixty percent of the export directly or indirectly originates from agriculture sector. It provides employment to 67 percent of the work forces. It plays a decisive role in economic development and planning and provides numerous to the industrial and service sector.

The requirements of finance in agricultural sector, very few farmers will have capital of their own to invest in agriculture. Therefore, a need arises to provide credit to all those farmers who require it. Even if we look into the expenditure pattern of the farmer families, they have hardly any savings to fall back on. Therefore, credit enables the farmer to

advantageously use seeds, fertilizers, irrigation, machinery, etc. farmers has to invariably search for a source, which supplies adequate farm credit.

At the time of independence the most important source of agricultural credit was the money lenders. In 1951 the year of initiation of planning in the country, money lenders accounted for as much as 71.6 percent of the rural credit. This predominant position of the money lenders was due to the lack of any worth while alternative source of credit for the farmers. Farmers were therefore forced to barrow from them. The almost total dependence of the farmers on the money lenders, enabled them to dictate terms and exploit the farmers in a numbers of ways like money lenders charged exhorbitant rates of interest ranging from 18-50 per cent or even more, they often manipulated accounts to their advantage by not entering the money returns and interest paid in to the account, they also forced the farmers to sell the agricultural produce to them at lower prices.

The govt. of independent India took various measures to help the farmers to meet their needs of agricultural farmers such as; Nationalization of 14 major commercial banks in 1969, followed by 6 more banks in 1970, Establishment of regional rural bank in 1975, setting up of the national bank for agriculture and rural development (NABARD) in 1982.

The source of agriculture finance can be divided into two categories Institutional finance and non-institutional finance. Institutional finance consists of cooperatives, scheduled commercial banks and regional rural banks, among cooperatives primary agriculture credit societies (PAC s) provide mainly short and medium term loans; whereas primary cooperative agricultural and rural development banks (PCARDB s) provide long term loans for the agriculture. The commercial banks including regional rural banks (RRB s) provide both short and medium term loans for agriculture and allied activities. The national bank for agriculture and rural development (NABARD) is the apex institute at the national level for agricultural credit and provides refinance assistance to the above agencies.

### **1.1 Objectives:**

- \*To assess the quantum of loans issue d and outstanding by institutional agencies in India.
- \*To examine the progress of Scheduled Commercial Banks in supplying agricultural credit in India.

**1.2 Scope and limitations of the study:** The different institutions in India played very important role in financing agricultural sector in India. For the purpose of study only secondary data are taken for the year 2000-01 to 2011-12 so all the limitations of secondary data are found in the study.

**2. Review of literature:** Jugal (1997) inferred that the term loan for agricultural purpose granted by zonal development Banks enable the barrowers to improve from mechanization by purchasing tractor, tillers and IP sets for minor irrigation the term loan also helped in increasing irrigation area by 22.40 per cent of land holding as well as cropping patterns and cropping intensity from one crop to two crops a year. Veerashekarappa (1997) in his study

on Institutional finance for rural development. Concluded that institutional finance was instrumental in acquiring productive form assets and development of irrigation facilities this result in changes in the cropping pattern increase in the cropping intensity and adoption of HYVs. Choudhary (2002) in his study to credit flow of agriculture feels that the recycling of funds is not possible on account of mounting of over dues. The recovery of loans requires a co-operative and collective responsibility of administrative machinery public and loaners. The repaying capacity of their loaners should be taken into consideration and there should be constant water on end use of the credit by the supervisory staff of different institutions. Hitesh Viramagami (2003) suggested that the RBI should provide financial support to PACs. To avoid multiple financing, Co-ordination between financial institutions should maintained. Banks should maintain rules and regulations to face the recovery of credit. Singh *et.al*, (2004) analysed the availability, utilization and repayment of crop loan in Rajpur district of Chattisgarh.

Forty per cent of the non-defaulter group and 60 per cent of the defaulter group misutilized the crop loan was not up to the extent for production and repayment has been affected.

**3. Methodology:** This study was mainly focused on progress on institutional credit to agricultural sector in India. The time series data on institutional credit in India to agricultural sector where collected from the following published sources. Handbook of Statistics on the Indian economy published by Reserve Bank of India. Report on trend and progress of banking in India.

**3.1 Tools of analysis:** The following tools were employed to analyse the data with reference to selected objectives of this study. The compound growth rates of area, production and productivity were estimated with the use of the following exponential function.

$$Y = a b^t \dots \dots \dots (1)$$

Where,

Y = the area / production / productivity

t = time variable in year

a = constant

and

b = (1 + i)

where i = Compound Growth Rate

The equation (1) takes the following linear form by taking logarithms to the lane of both sides of the equation

$$\text{Log} = \text{log} a + \text{log} b$$

Compound growth rate is computed using the following formula.

$$\text{Compound Growth Rate (CGR)} = \text{Antilog} (\log n b 1) \times 100$$

**3.2 Results and Discussion:** Like all other producers, the farmers also require credit; credit supports the farmers as the hangman's rope supports the hanged. That agriculturist cannot carry on his business without outside finance is a fact proved by history and evidenced by the poverty and indebtedness of the persons engaged in the business of agriculture. Agriculture credit is an essential input for augmenting agricultural productions and helping the poverty stricken farmers of India in meeting their investment requirement.

**Table-1.1 The direct institutional credit for agriculture and allied activities-short term**

Year	Loans Issued				Loans Outstanding			
	Co-operatives	SCBs	RRBs	Total	Co-operatives	SCBs	RRBs	Total
2000-01	18556	10754	3095	32355	18168	15422	3692	37302
2001-02	21670	12661	3810	38141	21540	18882	4812	45234
2002-03	23629	16825	4834	45288	24518	23211	6495	54224
2003-04	29326	24143	6133	59593	30808	31982	7664	70454
2004-05	31887	29978	9883	71748	32481	42798	10980	86259
2005-06	35624	45644	12816	94084	34140	59971	13877	107988
2006-07	40796	65245	17031	123072	37764	76006	18707	132477
2007-08	47390	68243	20377	136010	43696	96152	22748	162596
2008-09	48022	107766	22581	178639	45686	126285	26652	198623
2009-10	61951	124646	30529	217126	54970	167623	33663	256256
2010-11	NA	146063	38560	NA	NA	193262	40663	NA
2011-12	NA	217897	47011	NA	NA	269030	46580	NA
<b>CGR</b>	<b>13.57</b>	<b>32.04</b>	<b>28.94</b>	<b>24.3</b>	<b>12.05</b>	<b>30.33</b>	<b>26.54</b>	<b>23.86</b>

**Source:** 1.Reserve Bank of India, 2.SSBs: Scheduled Commercial Banks,3.RRBs: Regional Rural Banks

**Direct Institutional credit for the agriculture and Allied Activities Short term:** Table-1.1 shows that the depict issue of agricultural loans of the study banks viz, cooperative banks, scheduled commercial banks and regional rural banks. To study the amount of loans issued over the year, annual compound growth rate of all the study banks reveals a fluctuation over the periods that is in the base year 2001.

Table also displays the data on direct short term institutional credit for agriculture and allied activities during 2000-01 to 2011-12.A look at the table reveals that the direct loans issued increased gradually from 32, 355 crores in 2000-01 to 2,17,126 crores in 2009-10, with CGR of 24.29. The highest increase in loans issued was in the case of Scheduled Commercial Banks with CGR of 32.05 while the lowest was in the case of Co-operatives with CGR of 13.57 which was less than half of the Scheduled Commercial Banks.

As for as the loans outstanding was concerned, the loans outstanding increased from 37,302 crores in 2000-01 to 2, 56, 256 crores 2011-12 with CGR of 23.86. The highest

loans outstanding was in the case of Scheduled Commercial Banks with CGR of 30.32 while the lowest was in the case of Co-operative with CGR of 12.05

**Direct Institutional credit for the agriculture and Allied Activities Long term:** Table 1.2 pertains the data on direct long term institutional credit for agriculture and allied activities during 2000-1 to 2011-12. The direct loans issued increased from 15,364 crores in 2000-01 to 1,08,528 crores in 2011-12 with CGR of 20.95. The highest loans issued increased was in the case of Scheduled Commercial Banks with CGR of 31.55, while the lowest was in the case of Co-operatives with CGR of -0.92.

As for as the loans outstanding were concerned, the loans outstanding grown from 54,352 crores in 2000-01 to 2,25,958 crores in 2011-12 with CGR of 14.23. The highest loans outstanding were in the case of Scheduled Commercial Banks with CGR of 22.74 while the lowest was here also in the case of Co-operatives with CGR of -2.81.

**Table-1.2 The direct institutional credit for agriculture and allied activities long term**

Year	Loans Issued				Loans Outstanding			
	Co-operatives	SCBs	RRBs	Total	Co-operatives	SCBs	RRBs	Total
2000-01	8739	5736	871	15346	27967	22828	3557	54352
2001-02	8899	5977	736	<b>15612</b>	<b>30570</b>	<b>26224</b>	<b>3474</b>	<b>60268</b>
2002-03	10411	8431	1045	19887	34546	30593	3766	68905
2003-04	10723	12069	1042	22834	40595	36121	4058	80774
2004-05	13122	18389	2043	33555	46341	52721	5730	104791
2005-06	12499	34955	2484	49938	48187	75632	7632	131451
2006-07	13223	50021	3198	66442	51679	93012	8745	153436
2007-08	10253	45229	3461	58943	21970	106644	10468	139082
2008-09	10765	52924	3648	67337	18539	129834	10715	158908
2009-10	12987	63607	4111	80705	21510	147813	12619	181942
2010-11	7235	76729	5405	89369	30558	164322	14404	209284
2011-12	7500	94980	6048	108528	31446	174268	17244	225958
<b>CGR</b>	<b>-0.93</b>	<b>31.56</b>	<b>22.03</b>	<b>20.95</b>	<b>-2.82</b>	<b>22.75</b>	<b>17.21</b>	<b>14.23</b>

**Source:** 1. Reserve Bank of India, 2. SSBs: Scheduled Commercial Banks, 3. RRBs: Regional Rural Banks

**In-Direct Institutional credit for the agriculture and Allied Activities:** Table-1.3 displays the data on indirect institutional credit for the agriculture and allied activities during 2001 to 2012. A look at the table reveals that indirect loans issued by the banks increased from 99,413 crores in 2001-2002 to 1,99,009 crores in 2007-08 with compound growth rate of 12.10. The highest increase in loans issued was in the case of Scheduled Commercial banks with CGR of 38.42.

As for as the indirect loans outstanding was concerned, the indirect loans outstanding have also shown a gradual growth from 1,12,578 crores in 2000-01 to 2,80,040 crores in 2011-12 with CGR of 14.37. The highest indirect loans issued were in the case of Schedule Commercial banks with CGR of 24.98.

**Table-1.3 The direct institutional credit for agriculture and allied activities**

Year	Loans Issued				Loans Outstanding			
	Co-operatives	SCBs	REC	Total	Co-operatives	SCBs	REC	Total
2000-01	91337	3697	4109	99413	79567	18825	14185	112578
2001-02	84092	7990	4722	96803	89092	18238	15936	123266
2002-03	92152	6261	6607	105019	92920	23690	16506	133116
2003-04	93566	8936	6017	108519	102307	28520	18305	149132
2004-05	114132	21728	7441	143301	110132	36071	21062	167265
2005-06	122067	27751	7489	157307	119932	57175	24564	201671
2006-07	135740	38766	10733	185239	136392	82564	31262	250218
2007-08	145778	40278	12953	199009	147982	93443	38615	280040
2008-09	NA	73721	17157	NA	NA	110702	50653	NA
2009-10	NA	82839	21132	NA	NA	145554	65979	NA
2010-11	NA	86732	24519	NA	NA	146923	81725	NA
2011-12	NA	NA	27821	NA	NA	142585	101426	NA
<b>CGR</b>	<b>8.31</b>	<b>38.42</b>	<b>19.63</b>	<b>12.10</b>	<b>9.095</b>	<b>24.98</b>	<b>20.44</b>	<b>14.37</b>

**Source: 1.** Reserve Bank of India, **2. SSBs:** Scheduled Commercial Banks, **3. REC:** Rural Electrification Cooperation Ltd

**Scheduled Commercial Banks' Direct Finance to Farmers According To Size of Land Holdings (Disbursements) Short- Term and Long-Term Loans:** A look at the Table-1.4 reveals that up to the 2.5 Acers of land holders the number of account holders increased from 2,382 in 2000-01 to 13,735 in 2011-12 with CGR of 16.72 whereas the amount of finance increased from 3,740 to 89,714 with CGR of 18.20 over the years. In case of land holders of above 2.5 to 5 Acers of land holders the number of account holders increased from 1,860 in 2000-01 to 10021 in 2011-12 with CGR of 18.20 whereas the amount of finance increased from 3,642 to 82,919 with CGR of 33.30 during the referred period. In case of land holders of above 5 Acers the number of account holders increased from 1,599 to 6,782 with CGR of 15.11, whereas the amount of finance increased from 7135 to 99037 with CGR of 29.62 over the years. The total number of account holders increased from 5,841 to 30,538, whereas the amount of finance increased from 14,516 to 2,71,670 with CGR of 31.59 over the years.

**Table-1.4 Scheduled Commercial Banks' Direct Finance to Farmers According to Size of Land Holdings (Disbursements) Short-Term and Long-Term Loans**

Year	Loans Issued				Loans Outstanding			
	Co-operatives	SCBs	RRBs	Total	Co-operatives	SCBs	RRBs	Total
2000-01	2382	3740	1860	3642	1599	7135	5841	14516
2001-02	2679	4352	1933	<b>4371</b>	<b>2359</b>	<b>7578</b>	<b>6970</b>	<b>16300</b>
2002-03	2494	4834	1934	5578	1983	11445	6411	21857
2003-04	3711	7953	2695	7340	2259	16592	8665	31885
2004-05	4478	10833	3172	10550	2535	19735	10185	41119
2005-06	5004	16823	3670	17619	3670	32682	12344	67124
2006-07	5963	23246	4008	21588	4379	49335	14350	94169
2007-08	6605	25352	4463	23215	4932	48140	16000	96707
2008-09	8544	34267	6641	33280	6811	72753	21996	140300
2009-10	8127	42626	7175	44331	3685	73061	21687	160018
2010-11	9253	46019	9690	57436	6044	85455	24987	188910
2011-12	13735	89714	10021	82919	6782	99037	30538	271670
<b>CGR</b>	<b>16.72</b>	<b>33.02</b>	<b>18.20</b>	<b>33.30</b>	<b>15.11</b>	<b>29.62</b>	<b>16.79</b>	<b>31.59</b>

**Source:** Reserve Bank of India

**Scheduled Commercial Banks Advances to Agriculture Outstanding:** Table-1.5 shows the advances of scheduled commercial banks to agricultural outstanding during 2000-01 to 2011-12. The total direct finance to farmers gradually increased from 40485 crores in 2000-01 to 440758 crores in 2011-12 with CGR of 25.95 while as the total indirect finance to farmers increased from 18825 crores in 2000-01 to 142585 crores in 2011-12 with CGR of 24.69. The highest indirect advances increased were in the case of loans to electricity board with CGR of 35.69 followed by distribution of fertilizers and other inputs with CGR of 22.74.

As for as the total direct and indirect advance to agriculture was concerned, the total direct and indirect advances to agriculture outstanding shown gradual increase from 59310 crore in 2000-01 to 583343 crores in 2011-12 with CGR of 25.69. A look at the table 1.7 reveals that up to 2.5 Acres of land holders the number of account holders increased from 4,600 crores in 2000-2001 to 16,423 crores in 2011-12 with CGR of 13.54, whereas the amount of finance increased from 7,215 crores to 1,24,439 crores during the referred period

**Table-1.5 Scheduled Commercial Banks Advances to Agriculture Outstanding**

Year	Total Direct Finance	Indirect Finance					Total Direct and Indirect Finance
		Distribution of fertilizers and other inputs	Loans to electricity board	Loans to farmers through PACS/FSS /LAMPS	Other type of Indirect finance	Total indirect finance	
2000-01	40485	2304	1697	377	14447	18825	59310
2001-02	46581	3303	1841	928	12166	18238	64819
2002-03	56857	3241	2966	949	16534	23690	80547
2003-04	70781	4118	3533	723	20146	28520	99301
2004-05	95565	5234	4174	861	25902	36071	131636
2005-06	134798	6440	6464	769	43501	57175	191973
2006-07	172128	8516	11319	1360	61369	82564	254692
2007-08	214644	NA	NA	1542	91901	93443	308087
2008-09	264893	NA	NA	599	110103	110702	375595
2009-10	317767	NA	NA	1294	78504	145554	463321
2010-11	360253	NA	NA	880	62159	146923	507176
2011-12	440758	NA	NA	797	63771	142585	583343
<b>CGR</b>	<b>25.95</b>	<b>22.74</b>	<b>35.69</b>	<b>4.03</b>	<b>21.01</b>	<b>24.98</b>	<b>25.69</b>

**Source:** Reserve Bank of India

In case of 2.5 to 5 Acers of land holders the number of account holders increased from 3,689 to 1441 with CGR of 14.76, whereas the amount of finance increased from 7,308 to 1,26,365 with CGR of 29.92 over the years. In case of land holders of above 5 Acers the number of account holders increased from 3555 to 9,645 with CGR of 13.37 whereas the amount of finance increased from 16,963 to 14058 with CGR of 23.44 during the referred period. As for as the total number of account holders was concerned the total number of account holder increased from 11,844 to 40,509 with CGR of 13.98, whereas the amount of finance increased from 31486 to 391389 with CGR of 27.09 over the years

**Table-1.6 Scheduled Commercial Banks Direct Finance to Farmers According to Size of Land Holdings (Outstanding) Short-Term and Long-Term Loans**

Year	Up to 2.5 Acres		Above 2.5 acres to 5 acres		Above 5 acres		Total	
	Number of Accounts	Amount	Number of Accounts	Amount	Number of Accounts	Amount	Number of Accounts	Amount
2000-01	4600	7215	3689	7308	3555	16963	11854	31486
2001-02	4902	8759	3961	9686	3394	19083	12257	37529
2002-03	4749	9813	4092	11374	3835	23831	12676	44961



2003-04	6086	14805	4806	13974	4377	28786	15268	57565
2004-05	7299	20499	5874	20759	5274	37218	18447	78476
2005-06	8239	29719	6677	29255	6321	52769	21237	111743
2006-07	9954	37336	7548	37815	6985	64810	24487	139961
2007-08	11345	46457	9512	46631	8739	80956	29596	174044
2008-09	11708	60199	9570	59792	10884	99349	32162	219340
2009-10	17321	77952	14220	72916	17657	119500	49498	270368
2010-11	12567	88712	12900	95120	8292	125460	33759	309292
2011-12	16423	124439	14441	126365	9645	140585	40509	391389
<b>CGR</b>	<b>13.54</b>	<b>30.61</b>	<b>14.76</b>	<b>29.92</b>	<b>13.37</b>	<b>23.44</b>	<b>13.98</b>	<b>27.09</b>

**Source:** Reserve Bank of India

**Conclusion:** The study reveals that the institutional credit in India to agriculture sector has been increased in its quantum. The credit provided by the various institutional sources has increased its advances. But an effort has to be taken by the banks to reduce its outstanding, so that the recovered institutional credit should be pumped in to agricultural sector further for its growth.

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